

IOWA STATE UNIVERSITY

Digital Repository

Leopold Center Completed Grant Reports

Leopold Center for Sustainable Agriculture

2007

Using contracts to expand produce market opportunities

Jason D. Ellis

University of Nebraska - Lincoln

Follow this and additional works at: http://lib.dr.iastate.edu/leopold_grantreports



Part of the [Agribusiness Commons](#), and the [Marketing Commons](#)

Recommended Citation

Ellis, Jason D., "Using contracts to expand produce market opportunities" (2007). *Leopold Center Completed Grant Reports*. 286.
http://lib.dr.iastate.edu/leopold_grantreports/286

This Article is brought to you for free and open access by the Leopold Center for Sustainable Agriculture at Iowa State University Digital Repository. It has been accepted for inclusion in Leopold Center Completed Grant Reports by an authorized administrator of Iowa State University Digital Repository. For more information, please contact digirep@iastate.edu.

Using contracts to expand produce market opportunities

Abstract

Contracts and market agreements could help local food producers manage the risk of increasing production while guaranteeing supplies for potential purchasers.

Keywords

Market research and feasibility studies, Supply networks

Disciplines

Agribusiness | Marketing



LEOPOLD CENTER
FOR SUSTAINABLE AGRICULTURE

Using contracts to expand produce market opportunities

Abstract: Contracts and market agreements could help local food producers manage the risk of increasing production while guaranteeing supplies for potential purchasers.

Question & Answer

Q: How can the risk associated with expanding production of produce to meet demands of bigger or new markets be managed or shared?

A: A risk management strategy used in commodity and large-scale produce production is marketing agreements. Establishing marketing agreements provides a guaranteed market and pricing structure that allows for more accurate pre-season financial and production planning.

- Identify conditions necessary for foodservice operators to enter into purchasing agreements with local produce growers,
- Identify components necessary for producers to consider contracting as a marketing option,
- Develop a feasibility calculator for determining if the additional income from contracting sales justifies the potential operating expense and/or capital investment needed to meet contract demands, and
- Disseminate focus group outcomes and availability of the feasibility calculator to Iowa produce growers and foodservice managers.

Background

Shortening the food chain could allow Iowa produce growers and foodservice operators to retain more of the food dollar. Both sides see the benefits of selling and purchasing locally grown foods, but the availability of consistent supplies has been a problem for foodservice operations. Project organizers proposed a needs assessment process to explore what kinds of financial instruments could help producers and foodservice operators match supplies with demand.

The goal of this project was to determine how contracts or similar forms of marketing agreements could be used by producers to assure foodservice operators an adequate supply of quality produce at a reasonable cost while managing producer risks associated with increasing production. Specific project objectives were to:

Approach and methods

Objective 1: Three foodservice operator focus groups were planned initially. The one in eastern Iowa occurred in year one of the project and participants represented institutional foodservice operations, wholesale/retailers, and independent restaurants. Participation was lower than expected due to technical and planning difficulties. The north central Iowa group was to have similar representatives, but only one person showed up for the focus group. The Des Moines area group planning ran into difficulties because of the large number of dining establishments to contact. Attempts were made to work with a produce vendor, but the group was never convened.

Objective 2: Two focus groups with produce growers were conducted during the project's first year; one in central Iowa and the other in eastern Iowa. Participants were

Principal Investigator:

Jason D. Ellis
Agricultural Leadership, Education,
and Communication
University of Nebraska—Lincoln
(formerly Iowa State University)

Budget:

\$22,255 for year one
\$17,0310 for year two

recruited to represent a variety of operation characteristics, including size, number of products produced, and type of marketing systems used. Some sold only to farmers' markets while others had large-scale operations selling to wholesale outlets. Obtaining an accurate list of active producers was difficult, and nine producers actually attended the two sessions.

Objective 3: In cooperation with two ISU College of Business faculty, a feasibility model (online calculator) was developed to help producers determine if a guaranteed price set by contracts offsets the requirements necessary to secure a contract. Necessary contract requirements may include increased production (and production costs) to guarantee available supply, additional delivery or transportation costs, change in production practices to extend product availability, additional capital expenses (e.g., land equipment, or facilities), etc.

Objective 4: The intent was to expand the results of Objectives 1 to 3 to a larger audience of producers and foodservice operations. Focus group results and research conducted by a Drake University law student served as the basis for several presentations to produce growers.

Results and discussion

Producer focus groups: A majority of producers agreed that marketing agreements would be most useful for volume sales of commodity products such as tomatoes, peppers, or green beans. They thought that marketing agreements weren't likely to be as valuable for specialty crops or small volume buyers. In general, producers with experience selling in volume could more easily identify with the benefits of a secured market and volume. Producers not interested in volume sales, wanting to position their products in a "niche market," or with negative experiences selling in larger arenas were less open to the feasibility of using marketing agreements.

Foodservice focus groups: The group's participants appreciated the quality of local produce and were willing to invest some time in procuring local products, but rarely had formal agreements with suppliers. The notable exceptions were the large institutional foodservice operations which typically bid out supplier needs and sign contracts to purchase the bulk of their food from specified vendors.

This group expressed concern about exclusive commitments and the volatility of food supplies from a business (rather than personal reputation) perspective. These foodservice operators worried that if they contracted with a limited number of producers for a given product and the local supply was jeopardized, they would be unable to obtain the needed products from other sources.

Feasibility calculator: An online calculator allows producers to determine the economic viability of increasing production to meet volume needs for marketing agreements by manipulating input costs and other variables. Producers can determine whether there are cost advantages to increasing production volume and improving efficiencies by contracting sales. The individual scenarios that producers input can be saved in password-protected sites for future reference or revision. Producers must register to take advantage of the data-saving feature, but registration is free at www.iastatelocalfoods.org.

Other: The local or regional efforts of programs such as Buy Fresh Buy Local should be united to develop statewide networks or systems through which access to interested foodservice operations might be gained by producers.

Conclusions

Various conditions are necessary for producers to consider the use of risk management tools such as marketing agreements. The acceptance of such tools appears to be individual-specific, whether it is the producer or the foodservice operator. Based on focus groups, marketing agreements may serve as a way for producers to prove their ability to provide the desired quantity and quality of products. Agreements also may be beneficial to producers who want to expand operations, but need some assurance of guaranteed markets to help with production planning decisions.

Although there are a large number of foodservice operations in Iowa, finding ones with managers interested in discussing the use of locally grown produce and marketing agreements was difficult. As shown by the limited success in completing foodservice focus groups, interest may be present in the Iowa foodservice industry, but the willingness may be lacking to expend extra time and

resources to develop such relationships or help the relationships succeed.

The feasibility calculator used as its basis the cost elements from produce budget sheets developed by Craig Chase, Iowa State University Extension field specialist. The feasibility calculator was created to provide producers with a template into which they can enter production, variable, or fixed costs. Challenges with the calculator, as with any web-based tool focusing on production management, include internet access, computer usage and literacy on the producer's part, and producers with the accounting and business management acumen to make maximum use of these tools.

Impact of results

The results of this project will have an indirect impact on two audiences: produce growers in Iowa and those striving to improve linkages between local food production and local food consumption in the foodservice industry. Produce growers will see the need to better manage operational procedures and decisions in order to make produce a meaningful income component of an agricultural enterprise. Evidence gathered from focus groups and various presentations suggests that produce growers know what it takes to raise their crops, but do not monitor expenses or inputs to the degree necessary to make significant business decisions like signing marketing agreements.

The impact on ancillary audiences working to link producers and foodservice operations comes in the form of shifting audience perspectives. Producer focus groups raised three points for further investigation:

- It is not necessarily the demographics of a produce operation that make it a good candidate for contracts, expansion, or use of technologies, but the

psychographics of the operator. Producers must understand the benefits of these tools and be willing to use them correctly and frequently enough to improve their operations.

- It is critical to identify the extent to which Iowa produce growers desire to produce a significant component of their enterprise's income.
- It is then necessary to determine *who* these interested producers are and *where* they are located in the state.

Many county or regional entities may possess this information for their areas, but an easily updated, central repository for this data would greatly benefit larger initiatives such as those undertaken by the Leopold Center.

Education and outreach

Presentations to researchers, producers, and industry regulatory officials were made at these events: Iowa Fruit and Vegetable Growers annual meeting, January 2006; Iowa Network for Community Agriculture annual meeting, February 2006; and Southeast Iowa Regional Food Forum (Ainsworth), March 2006. A series called "Bridging the Gap: Selling to Foodservice and Retail" was presented during March 2006 with sessions offered in Fairfield, Atlantic, Sergeant Bluff, and Waterloo.

A presentation on the project can be viewed at http://www.leopold.iastate.edu/research/marketing_files/workshop06/index.htm

Leveraged funds

No additional funds have been sought.

For more information contact Jason D. Ellis, Agricultural Leadership, Education, and Communication, University of Nebraska, 300 Agricultural Hall, Lincoln, NE 68583-0709; (402) 472-9782, e-mail Jellis2@unl.edu